

# THE BOND BUYER

THE DAILY NEWSPAPER OF PUBLIC FINANCE

## Ratings Should Allow Comparison Between Munis, Corporates: Panel

Bond Buyer | Tuesday, June 17, 2008

By [Peter Schroeder](#)

FORT LAUDERDALE, Fla. The credit rating agencies should adopt systems that allow for the direct comparison of municipal and corporate bonds but still retain the ability to differentiate among different types of munis within the same rating category, members of the Government Finance Officers Association's governmental debt management committee concluded Saturday.

The committee drafted a public policy statement to that effect during Saturday's meeting just before the official start of GFOA's annual meeting. If the draft statement is approved by the executive board, GFOA members will vote on it today.

Committee members said that municipal bonds, which are far less likely to default than corporate bonds, should be placed on a rating scale that allows for a direct comparison between the two kinds of debt. Municipal market participants have complained in the past that since the two types of bonds are evaluated and rated under two different rating systems, municipal bonds usually receive ratings that are comparable or lower than corporate bonds even though they have a lower risk of default.

While most committee members agreed that municipal bonds deserve to be rated higher when compared to corporate debt, some members expressed concern that if the rating agencies were to adopt a global scale, a significant amount of munis would receive a series of upgrades due to being compared to other types of debt, resulting in a "compression" of the top ratings, including triple-A.

As a result, it could be more difficult for investors to discern between various sets of munis that all have the same high rating. If all munis were to achieve the top few ratings and no indicators would be left for an investor to differentiate between them, investors could potentially seek other ways to evaluate debt.

"If the investors don't get the answers they want from ratings, they'll get them from somewhere else," one member of the debt committee said.

Members attempted to strike a balance in the policy statement, saying that munis and corporate bonds should be "readily comparable," but that agencies should take steps to ensure that ratings "retain qualitative distinctions that are valuable to issuers and investors alike."

The committee also added a sentence stating that both the rationale and criteria used to determine ratings should be transparent.